A MESSAGE FROM THE CFO

Corporate Senior Vice President Hidehiro Tsukano

Performance in Fiscal 2013

The global economy during fiscal 2013 continued to experience a moderate recovery. In Europe, there was a resumption of economic growth, and signs of an economic recovery, particularly in Germany and the UK. In the US, uncertainties over the federal government's fiscal policies eased, and the economy continues to recover, especially consumer spending and corporate capital investment.

In Japan, thanks to a stock market rally and yen depreciation spurred on by the government's economic policy and monetary easing by the Bank of Japan, the economy is undergoing a moderate recovery. Consumer spending rose, in part spurred by last -minute demand for purchases prior to an increase in the consumption tax rate. There has been a moderate recovery in exports resulting from an improved economic environment owing to the weaker yen and recovery in markets outside Japan.

ICT investment in Japan is gradually increasing on signs of a rebound in corporate capital investment resulting from a recovery in corporate earnings.

Under these conditions, consolidated net sales for fiscal 2013 were ¥4,762.4 billion (US$46,237 million), an increase of 8.7% from fiscal 2012. Excluding the impact of foreign exchange fluctuations, sales were up by 2.0%. Net sales in Japan increased by 2.7%. Sales of mobile phones were down sharply in the first half, but sales of system integration services increased, mainly to the public sector and financial institutions, as did sales of PCs and network products. Outside Japan, sales were up 20.2% from the previous fiscal year, and on a constant currency basis, increased by 1.0%. Sales of car audio and navigation equipment and optical transmission systems in North America were higher than fiscal 2012.

By segment, sales in the Technology Solutions segment increased from the previous fiscal year. Contributing factors included increased sales on account of expanded investments in system integration, as well as investments in network products by telecommunications carriers seeking to expand LTE service area coverage and increase transmission speeds. There was also a boost due to foreign exchange rate effects. The Ubiquitous Solutions segment posted a year-on-year decline in sales. The decline came despite a significant increase in enterprise PC sales brought about by higher demand for replacements due to the end of support for an operating system; however, mobile phone sales in the first half fell sharply due to a revision of smartphone sales strategies by telecommunications carriers. In the Device Solutions segment, sales rose overall. Sales in Japan fell, mainly in digital audio-visual equipment and IT equipment, but outside Japan, sales of LSI devices increased, primarily for use in smartphones.

Gross profit was ¥1,269.1 billion, up ¥65.4 billion from fiscal 2012. The increase was attributable to foreign exchange movements and the beneficial effect of initiatives for improving profitability, although there was a decline in mobile phone sales. The gross profit margin was 26.7%, a decline of 0.8 of a percentage point compared to the previous fiscal year, primarily the result of deteriorating profitability in mobile phones. Selling, general and administrative expenses were ¥1,126.6 billion, an increase of ¥11.1 billion from fiscal 2012, attributable to foreign exchange effects and other factors. We made progress in generating Group-wide cost efficiencies, and selling, general and administrative expenses declined on a constant-currency basis.

As a result, operating income was ¥142.5 billion, an increase of ¥54.2 billion compared to fiscal 2012. The operating income margin increased 1.0 percentage point to 3.0%. Structural reforms in the LSI device business and a business outside of Japan contributed approximately ¥30 billion to this increase, and workforce-related measures contributed approximately ¥20 billion.

By segment, the Technology Solutions segment achieved higher year-on-year operating income on a full-year basis. The Ubiquitous Solutions segment posted an operating loss due to deterioration in mobile phone sales, although sales of PCs and mobilewear increased. The Device Solutions segment returned to profitability, benefiting from lower fixed costs owing to an early retirement incentive plan and other factors in the LSI device business and an upswing in export profitability following the yen's depreciation.

In other income (expenses), Fujitsu recorded a loss of ¥49.6 billion, representing an improvement of ¥90.7 billion from the previous fiscal year. This is mainly due to Fujitsu having posted ¥11.5 billion in gains on sales of real estate and shares, while restructuring charges and an impairment loss decreased from the previous fiscal year. On the other hand, a loss on the reversal of foreign currency translation adjustments of ¥21.6 billion was recorded, stemming from the liquidation of Fujitsu Management Services of America, Inc.

The restructuring charges of ¥31.1 billion in fiscal 2013 mainly consisted of ¥21.0 billion for the LSI device business, ¥4.9 billion for the mobile phone business, and ¥4.2 billion for business outside Japan. In the LSI device business, the charges were mainly attributable to the system LSI (SoC: System on a Chip) business, which is scheduled to be integrated, and consisted of the costs for covering retirement benefit liabilities and losses on the disposal of assets. There were also charges stemming from the cost of restructuring the production lines for standard logic devices as well as losses on the disposal of assets. In the mobile phone business, the charges stemmed from losses on the disposal of assets in the process of integrating production sites as well as expenses incurred in reallocating personnel. The charges for businesses outside of Japan were primarily in the Nordic region, and consisted of workforce rationalization expenses. Through these structural reforms, Fujitsu achieved a certain amount of progress on businesses that were presenting challenges.

As a result, net income for fiscal 2013 was ¥48.6 billion, representing a year-on-year improvement of ¥128.5 billion.

Explanations for underlined words can be found in the glossary on pages 160-162.

Financial Initiatives in Fiscal 2013

Consolidated total assets at the end of fiscal 2013 amounted to ¥3,079.5 billion. Shareholders' equity increased by ¥48.6 billion due to recording net profit, while foreign currency translation adjustments increased by ¥61.7 billion compared to the end of fiscal 2012 on a reversal stemming from the liquidation of a US subsidiary and on the depreciation of the yen. On the other hand, there was a ¥171.8 billion decrease from the end of the previous fiscal year on remeasurements of defined benefit plans, mainly due to an unrecognized obligation for retirement benefits for plans in Japan being brought on to the balance sheet as a liability in accordance with a revision in the accounting standard for retirement benefits. As a result, the owners' equity ratio decreased by 2.8 percentage points compared to the previous fiscal year-end to 18.6%.

Free cash flow was positive ¥46.6 billion, representing an improvement in net cash inflows of ¥137.1 billion compared with the same period in the previous fiscal year. Excluding one-time items such as the special contribution to the defined benefit corporate pension fund of a UK subsidiary in the previous fiscal year, free cash flow amounted to ¥14.4 billion, which was ¥6.0 billion more than the previous fiscal year.

The balance of interest-bearing loans amounted to ¥519.6 billion, a decrease of ¥15.3 billion from the previous fiscal year-end. Fujitsu issued ¥80.0 billion in straight bonds to cover the redemption of straight bonds and repay short-term borrowings, and also made progress in paying down borrowings. Consequently, the D/E ratio was 0.91 times, an increase of 0.05 of a point and the net D/E ratio was 0.38 times, a decrease of 0.02 of a point from the previous fiscal year-end.

Corporate Senior Vice President
Hidehiro Tsukano

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unit: billion yen)

Years ended March 31	2013	**2014**	YoY Change	Change (%)
Net sales	4,381.7	**4,762.4**	380.7	8.7
Cost of sales	3,177.9	**3,493.2**	315.2	9.9
Gross profit	1,203.7	**1,269.1**	65.4	5.4
Selling, general and administrative expenses	1,115.4	**1,126.6**	11.1	1.0
Operating income	88.2	**142.5**	54.2	61.5
Other income (expenses)	(140.3)	**(49.6)**	90.7	–
Income (loss) before income taxes and minority interests	(52.1)	**92.9**	145.0	–
Income taxes	24.2	**37.0**	12.8	52.8
Minority interests in income (loss) of consolidated subsidiaries	3.5	**7.2**	3.7	105.2
Net income (loss)	(79.9)	**48.6**	128.5	–

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unit: billion yen)

As of March 31	2013	**2014**	YoY Change
Assets			
Current assets	1,722.2	**1,866.4**	144.1
Property, plant and equipment	618.4	**619.6**	1.1
Intangible assets	187.3	**186.2**	(1.0)
Investments and other non-current assets	392.2	**407.2**	14.9
Total assets	2,920.3	**3,079.5**	159.2
Liabilities			
Current liabilities	1,568.5	**1,462.3**	(106.1)
Long-term liabilities	599.3	**914.7**	315.3
Total liabilities	2,167.8	**2,377.0**	209.1
Net assets			
Shareholders' equity	825.5	**874.2**	48.6
Accumulated other comprehensive income	(201.5)	**(301.0)**	(99.5)
Minority interests in consolidated subsidiaries	128.3	**129.1**	0.8
Total net assets	752.4	**702.4**	(49.9)
Total liabilities and net assets	2,920.3	**3,079.5**	159.2
Cash and cash equivalents at end of year	286.6	**301.1**	14.5
Interest-bearing loans	534.9	**519.6**	(15.3)
Net interest-bearing loans	248.3	**218.4**	(29.8)
Owners' equity	624.0	**573.2**	(50.8)

Notes: Year-end balance of interest-bearing loans: Short-term borrowings and current portion of bonds payable (Current liabilities) + Long-term borrowings and bonds payable (Long term liabilities)*
Net interest-bearing loans: Interest-bearing loans – Cash and cash equivalents
Owners' equity: Net assets – Subscription rights to shares – Minority interests in consolidated subsidiaries
* ¥284.5 billion of cash and cash equivalents in consolidated statements of cash flows as of the end of the previous fiscal year is calculated by deducting ¥2.0 billion of overdrafts, which is categorized within short-term borrowings in current liabilities, from cash and cash equivalents in the consolidated balance sheets.

Voluntary Adoption of IFRS

Starting in fiscal 2014, Fujitsu is voluntarily adopting IFRS for its consolidated financial statements. Outside of Japan, the Fujitsu Group has expanded its business across the globe, to regions such as Europe, the Americas, and Asia. As the importance of its business outside of Japan grows year by year, IFRS, a single, uniform accounting standard for Group companies, including those based outside of Japan, will enable coherent business management in and outside of Japan. Moreover, by implementing IFRS-based business management as the management platform for Fujitsu as a truly global company, the Company will pursue greater efficiency to promote global growth and to increase its corporate value. In adopting IFRS, Fujitsu also seeks to facilitate international comparisons of financial information in global capital markets.

Approach to Financing Activities and Credit Rating Status

To ensure efficient fund procurement when the need for funds arises, Fujitsu views the maintenance of an appropriate level of liquidity as an important policy with respect to its financing activities. "Liquidity" refers to cash and cash equivalents and the total unused balance of financing frameworks based on commitment lines established with multiple financial institutions. As of March 31, 2014, the Group had liquidity of ¥498.8 billion ($4,843 million), of which ¥301.1 billion ($2,923 million) was cash and cash equivalents and ¥197.7 billion ($1,919 million) was the yen value of unused commitment lines.

To raise funds from global capital markets, the Group has acquired bond ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Rating and Investment Information, Inc. (R&I). As of March 31, 2014, the Company had bond ratings (long-term/short-term) of A3 (long-term) from Moody's, BBB+ (long-term) from S&P, and A (long-term) and a-1 (short-term) from R&I.